Research Plan

On

FACTORS INFLUENCING CROSS-BUYING INTENTIONS OF CONSUMERS: A STUDY OF FINANCIAL SERVICES IN RAJASTHAN

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Introduction

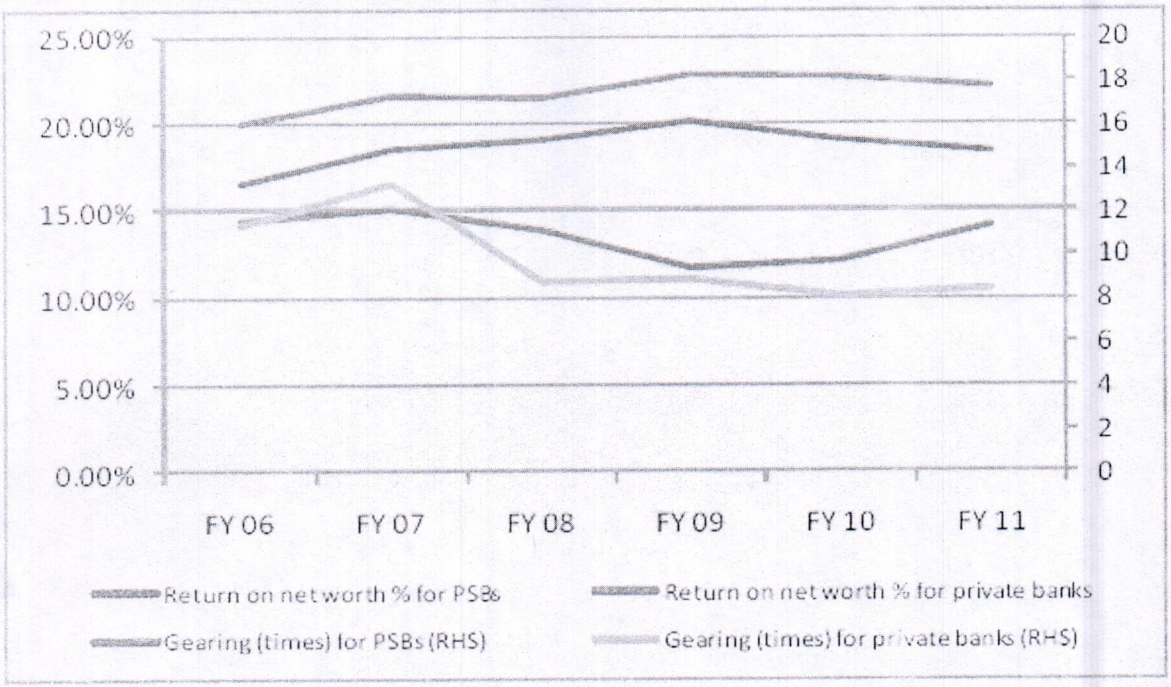
The greatest asset of any bank is its' customer base. In today's competitive environment, acquiring new customers is much costlier than to retain existing customers (Peters, 1987; Mittal and Lassar, 1998). For this, nurturing the relationships into long-term profitable asset becomes vital. But this requires a lot of perseverance, innovation and research. At the same time, the profit margins of banking institutions are declining due to the factors such as rising operating costs, reduced levels of consumer spending, narrowing lending spreads, market saturation, and adverse market conditions (Soureli et al., 2008). The smartest method adopted to curb these situations is to cross-sell. Cross-selling is a sales promotion technique in which the manufacturer attempts to sell a related product to the prime product that the consumer already uses (reverse is known as "cross-buying"). It is complementary to cross-buying (Kamakura et al., 2003). In fact, the benefits of cross-selling can only be achieved, if the customers are willing to cross-buy (Polonsky, 2000). To remain competitive and to achieve economies of scale, all Indian banks are involved in cross-selling activities. Identifying cross-selling opportunities is one thing and making them happen successfully is quiet another. Thus, it is not easy to get customers to cross-buy different financial services from the same bank (Ngobo, 2004). And in the words of K.V. Kamath, chairman of Infosys Ltd. and non executive chairman of ICICI bank:
"The winners in this sector will be the players who can understand the customers, fulfill customer needs, and achieve high levels of customer retention.." (Vikalpa, 2003)

Background of the study

The fundamental structural changes have presented many challenges in front of banking sector. A combination of developments arising from technological advancements and a liberalized marketplace– disintermediation, blurring of traditional roles and boundaries, emphasis on shareholder value creation – has led to a transformation of the banking sector.

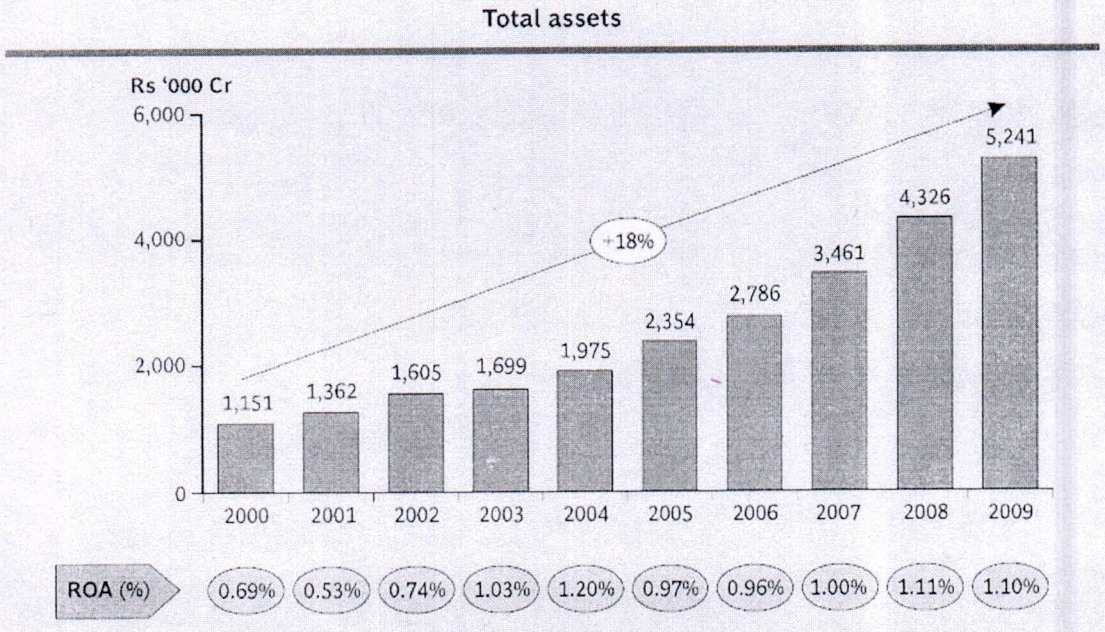
1) **Growth of Indian banking sector:** According to a report of ICRA (2011) the profitability (PAT as a percentage of Total Assets) of Scheduled commercial banks has been stable at 0.9-1.1% over the last five years. Further, the profitability (PAT/Average Total Assets) of the PSBs has been lower (at around 0.9%) than that of private banks (at around 1.4%) over the same period. However, despite lower profitability, the return indicators (Return on Net Worth) of the PSBs remain higher than those of private banks primarily because of higher leveraging (fig.1). Other indicator of profitability has also declined (fig.2). According to another report of BCG (2010) margins will see the downward pressure in next decade both on retail banking and corporate banking spurring banks to generate more fees and improve operational efficiency.

Figure 1: Trend in profitability and gearing



Source: RBI, Annual Report/Results of banks, ICRA Research

Figure 2: Growth of Indian banking industry (Total assets and Return on Assets)



Source: Annual Reports; BCG analysis

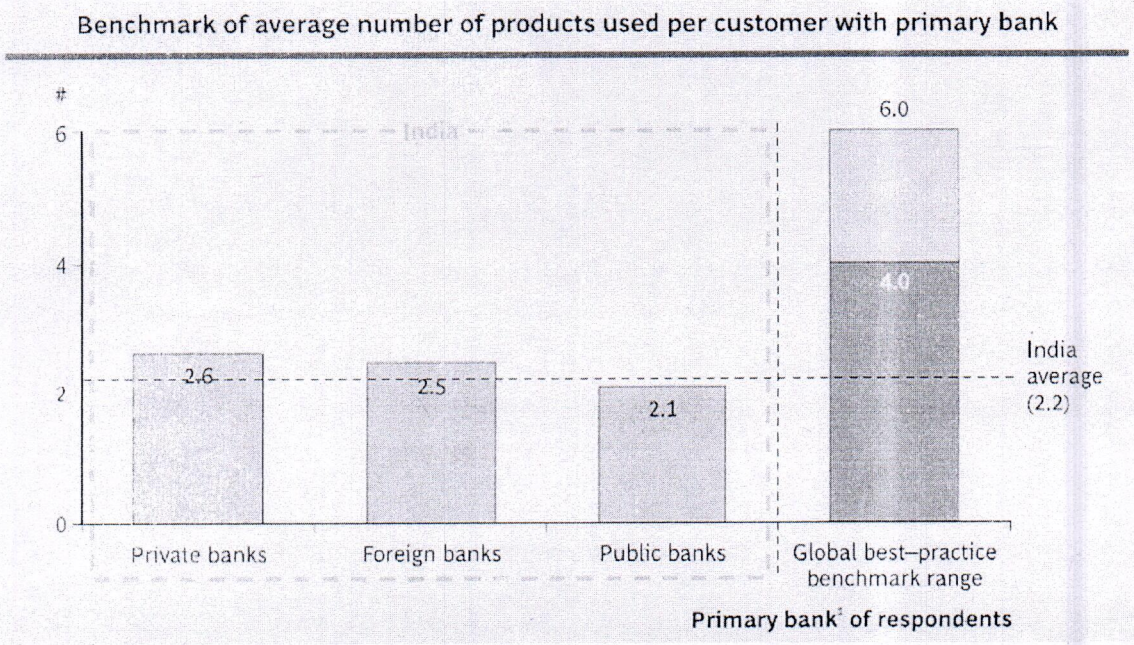
2) **Contribution of Indian banking sector:** Indian banking sector is the key driving force of Indian economy and the most dominant segment of financial sector. Deposits increased to 71.3% of GDP in FY11 from 37.4% in 1991. Lending grew to 53.9% in FY11 from 22.6% in 1991. Bank credit to commercial sector increased from 30.3% of GDP in 1990 to 57.6% in 2011.

3) **Cross-buying in Indian banking sector:** There is tremendous opportunity of cross-selling in front of Indian banks as the average number of banking products per customer in India is significantly lesser than the global benchmarks (fig.3). Cross-selling is highly effective as compared to all other means of customer acquisition. According to P.T. Kuppuswamy (Chairman and CEO, The Karur Vyasya bank):

"Many banking companies are losing significant revenue by not leveraging cross-selling opportunities. Banks are not influencing buyers' purchasing decisions while they shop."

Further in his speech in colloquium (Vikalpa, 2003) stated the reason for the same are that the banks are not providing their counter staff with relevant information to cross-sell as well as training and awareness to enable employees to quickly and easily cross-sell the company's full line of products.

Figure 3: Cross-buying by banking customers in India



Source: BCG consumer survey, 2010

Literature Review

This literature review has been divided into four sections based on the proposed constructs of this study. These are cross-buying, relationship quality, relationship strength and relationship longevity.

Cross-buying

Verhoef et al. (2001) were the first to introduce the term "cross-buying". He defined it as the purchase of a number of different services from the same provider. Ngobo (2004) has defined cross-buying as customer's practice or intention of buying additional products and services from the existing service provider in addition to the ones s/he already has. He further stated that customers may reject cross-buying offers because they do not want to be tied to one single service provider for a long time.

Author(s)	*Focus*	*Data specification*	*Findings*
Verhoef et al. (2001)	Impact of customer satisfaction and payment equity on cross-buying	Satisfaction and payment equity, relationship duration, marketing instruments applied, demographics, previous buying behaviour (IV) Cross-buying (DV)	The effect of satisfaction differs between customers with lengthy and short relationships. Payment equity negatively affects cross-buying for customers with long relationships
Ngobo (2004)	Drivers of customers' cross-buying intentions for services	Service quality, perceived value, satisfaction, convenience, image conflicts, switching costs, repurchase intention (IV) Cross-buying intentions (DV)	Perceived one-stop shopping convenience (positive effect) and image conflicts (negative effect) are the most important predictors of cross-buying potential
Verhoef and Donkers (2005)	The impact of acquisition channels on customer loyalty and cross-buying	Services initially purchased, acquisition channel customer characteristics (IV) Customer loyalty, cross-buying behaviour (DV)	Acquisition channels have a weak effect on cross-buying behavior. Cross-buying is affected mainly by marketing efforts during the relationship
Soureli et al. (2008)	Equation model of factors that affect cross-buying intentions	Perceived value, satisfaction, image, trust (IV) Cross-buying intention (DV)	Image and trust are central in the formation of customers' cross-buying intentions
Padmavathy et al. (2012)	Measuring effectiveness of customer relationship management in Indian retail banks	Customer management effectiveness dimensions, customer satisfaction, customer loyalty (IV) Cross-buying (DV)	Both customer satisfaction and customer loyalty positively related to the cross-buying

Relationship quality

Author(s)	*Relationship quality (indicators)*	*Antecedents of Relationship quality*	*Consequences of relationship quality*	*Context*
Smith (1998)	Trust, commitment, satisfaction	Relationship duration	none	366 members of the purchasing management association of Canada
Lages et al. (2005)	Amount of information sharing, communication quality, long-term orientation, satisfaction	Expertise	none	Relationship quality between exporting firm and importer (sample of 111 UK exporters)
Liu and Wu (2008)	Trust, satisfaction	none	*Cross-buying*	564 individual clients of a bank in Taiwan
Rajaobelina and Bergeron (2009)	Trust, satisfaction	Client knowledge, customer orientation, expertise, similarity	Purchase intention, word-of-mouth	Financial service sector (414 financial advisors and 772 customers)
Carlson and Tung	Trust, satisfaction	none	*Cross-buying intentions*	269 customers (aged 18+) of Hong Kong retail banks

Relationship strength

Author(s)	*Relationship strength (indicators)*	*Antecedents*	*Consequences*	*Context*
Storbacka et al. (2001)	Purchase behavior (repeat purchase, loyalty) and communication behavior (word-of-mouth, complaint)	Customer satisfaction	Relationship longevity	None (Model not tested)
Canniére et al.	Length and buying	Relationship	Buying intention and buying	634 customers of Belgian

(2010)	frequency	quality	behaviour	apparel retailer
Sajtos and Kreis (2010)	Customer loyalty and switching costs	Patronage concentration, *cross-buying*	none	1050 retail bank customers in New Zealand

Relationship longevity

Storbacka et al. (2001) defined it as length of relationship. Relationship longevity refers to the duration of relationship (Bolton et al., 1998), the repurchase of service or else customer retention (Bolton et al., 2000)

Author(s)	***Relationship longevity (indicators)***	***Studied as***	***Context***
Verhoef et al. (2001)	Duration of relationship using company database	As moderator, moderating the effect of satisfaction and payment equity with focal supplier and competing supplier on *cross-buying*	2300 customers of a large Dutch insurance underwriter
Verhoef et al. (2002)	Duration of relationship using database	As moderator, moderating effect of trust, commitment, satisfaction and payment equity on customer referrals and number of services purchased	1986 customers of an insurance company in Netherlands
Liang and Chen (2009)	Continuance intention	As outcome of relationship satisfaction and relationship commitment	2150 online customers of a security corporation in Taiwan
Sabiote and Román (2009)	Duration of relationship	As moderator, moderating effect of social regards on satisfaction, word-of-mouth and trust	150 financial consumers and 331 customers of hair salon in Spain
Liu and Wu (2008); Sajtos and Kreis (2010)	Duration of relationship (directly asking through questionnaire)	As control variable effecting *cross-buying*	564 individual clients of a bank in Taiwan 1050 retail bank customers in New Zealand

Problem Statement and Literature Gap

As the profit margins of banks have shrunk, retail banks want to leverage the opportunities of cross-selling, more and more. For this, the bank practitioners need to understand the cross-buying behavior of banking customers. Cross-buying intentions of customers are influenced by large number of factors, such as trust, bank's image, loyalty, perceived ease etc. These factors may have a positive or negative effect on cross-buying and the degree of effect of these factors may also differ. Many researchers have tried to explore these factors (Ngobo, 2004; Jeng, 2008; Soureli et al., 2008) as it is evidenced through the above mentioned literature review also, but still knowledge on the factors that encourage or discourage customers to buy integrated financial services from a single provider is very limited and to overcome these shortcomings more empirical investigations in this domain are called for (Irinja Mäenpää, 2012). Moreover, the researcher also identified this gap that the effects of some factors are not well researched such as, effect of relationship depth, relationship length, relationship improvement and others factors need to be explored. The present research aims to fill this gap.

Management Question

The question in front of bank management people that would be addressed by this research is:

"What effects customers' cross-buying intentions and how these factors are related with cross-buying intentions?" "To which extent these factors affect the same?"

Research Questions

To answer this management question, there can be several research questions, but this research aims to provide answers to few of these questions. The reason behind this is that these questions are not well researched.

- What effect will the relationship quality have on cross buying intentions of banking customers?
- What effect will the relationship longevity have on cross buying intentions of banking customers?
- Do stronger relationships with bank increase cross-buying intention among customers?
- Do technology orientation of people effects their cross-buying?
- Does the duration of relationship moderate the effect of other factors on cross-buying?

Objectives

1) To study the relationships between customers' past experience regarding the relationship with their main bank and cross-buying.

2) To investigate the impact of relationship quality on cross-buying intentions of banking customer.

3) To study the degree of effect of relationship longevity on cross-buying intentions of banking customer.

4) To study the degree of effect of relationship strength on cross-buying intentions of banking customer.

Hypothesis

Null Hypothesis H_0: there is no effect of the constructs of relationships (i.e. relationship quality, relationship longevity, relationship strength) on cross-buying

Alternative Hypothesis H_a: cross-buying is significantly influenced by the constructs of relationships (i.e. relationship quality, relationship longevity, relationship strength)

Significance of study

- The current study will help in predicting the cross-buying intentions of customers on the basis of their relationships with banks.
- It will provide the insight about the effect of relationships quality, length and strength on customers' cross-buying intentions.
- The findings of this research will provide an understanding which group of customers is profitable and how to turn new customers into cross-buyers.
- It will also help in understanding the role of customer-relationship management in cross-selling.
- Therefore, it will help in reducing customer attrition as for cross-buyers, ending relationship with current service provider become less attractive as well as profitable.

Proposed Constructs

This research intends to study four constructs (see table.1). The relationships among these constructs will be established based on previous studies. Though, this research would not be restricted to these constructs and scales only, if the researcher would found relevant influencing factor and better scale at later stages.

Table.1 Description of dimensions

S. no.	Dimensions	Emerging themes	Major research streams
1	Cross-buying (Soureli et al., 2008)	Cross-buying through different channels Effects of cross-buying Effects on cross-buying	Cross-buying in "online" context (Liang et al., 2008)); effects of cross-buying on relationship strength, customer value, relationship quality (Sajtos and Kreis, 2010) effects of bank's image, trust, loyalty, perceived value, satisfaction (Soureli et al., 2008), perceived convenience, switching costs (Ngobo, 2004), payment equity, marketing instruments (Verhoef, 2001), acquisition channels on cross-buying (Verhoef and Donkers, 2005);
2	Relationship quality (De Cannière et al., 2010)	Effects of relationship quality on behavioural intentions	Effects on cross-buying (Liu and Wu, 2008), effects of cross-buying/patronage concentration on relationship quality, (Sajtos and Kreis, 2010)
3	Relationship longevity (Liao et al., 2006)	Moderating effects Control variable in behavioural study	Moderating the effect of relational constructs on customer referrals (Verhoef et al., 2002), controlling the effect of cross-buying and patronage concentration (Sajtos and Kreis, 2010); controlling the effect of trust and satisfaction on cross-buying (Liu and Wu, 2008)
4	Relationship strength (Sajtos and Kreis, 2010)	Moderating effects on cross-buying,	Moderating the effect of relationship quality on

		Effects on behavioural intentions	buying intentions and the effect of buying intentions on buying behavior (De Cannière et al., 2010) effects of cross-buying/patronage on relationship strength (Sajtos and Kreis, 2010)

Methodology

An overview of the methods including research design, population, sample and sampling techniques, data collection and analysis that will be used in this study, are discussed below.

Research Design

The research design adopted for this study will be exploratory and causal. It will be exploratory because the dimensions of relationship quality, strength and longevity will be explored or identified from literature. Moreover, the study will test the casual relationship between the above mentioned dimensions and cross buying intensions.

Population

The population for the study consists of all Indian banking customers. From this large population, the research area chosen is Rajasthan. The reason behind choosing Rajasthan as research area is the banking industry development activities in Rajasthan is moderate to high as shown in table 2.

Table: 2 An overview of the banking activities in India and Rajasthan in FY12

Parameters		India (in no./Rs.)	Rajasthan	
			In no./Rs.	In %
1. No. of offices of commercial banks	(a) rural	36136	1962	5.4
	(b) urban	25959	1414	5.4
	(c) semi-urban	20335	1044	5.1
	(d) metro-politan	18884	527	2.8
	Total	101314	4947	4.9
2. Deposits of commercial banks		61741.47	1519.83	2.5
3. Credits of commercial bank		48215.27	1369.96	2.8
4. Population per office		12577	14543	

5. Investments in state govt. securities*		3021950	195518	6.5
6. Investments in RRB(s)*		11856	505	4.3
7. Investments in state industrial development corporations*		668	65	9.7
8. No. of employees**		1050885	38229	3.6

Source: www.rbi.org.in; *2010-11 **2011

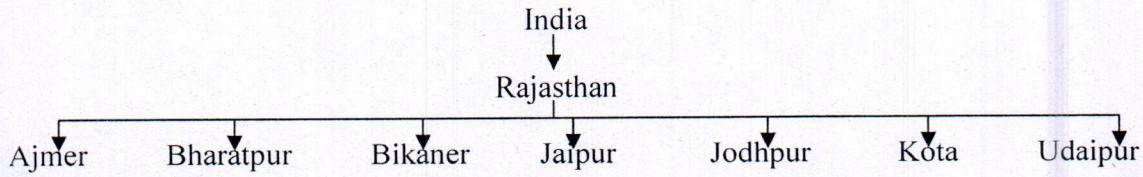
Sampling Procedure

1) **Sample size**: The sample size would be approximately 950 retail banking customer. Though, the minimum required sample size calculated using given statistical formula stands 385. But to resolve the problem of missing data, biases arising out of outliers, non-responses a sample of 950 would be considered to proceed further. This is in line with Hair et al. (2006) caution that sample size is not a clear cut rule of thumb and sample size may need to be increased if the model suffers from specification errors or departures from normality. In related studies conducted on Indian banking customers, researchers (Padmavathy et al., 2012) found approx. 40% of response rate. Assuming same response rate, the then sample size of 950 has been determined.

$$n_o = z^2\, pq/e^2$$ [formula adopted from Glenn. D. Israel, 1992]

where, n_0 is sample size to be determined, z is abscissa of the normal curve that cuts off an area α at the tails ($1 - \alpha$ equals the desired confidence level, i.e., 95%) (in our case, 1.96) and e is precision level (in our case, $\pm$ 0.5), p is the estimated proportion of an attribute that is present in the population, and q is 1-p.

2) **Sampling technique:** Sampling technique will be quota sampling. The quota will be based on age, gender and region. The reason behind choosing quota sampling is that quota sampling is much quicker and easier to carry out because it does not require a sampling frame. The quota sample improves the representation of particular group within the population and the use of quota sample allows us to more easily compare these groups. The state of Rajasthan has been divided into following seven divisions for administrative purposes. One city from each division will be picked randomly to conduct survey.



division (4) division (5) division (4) division (5) division (6) division (4) division (6)

Data collection

A single cross-sectional survey through questionnaire will be conducted to collect primary data for this study.

Data collection instrument

The researcher will collect data by administering a structured questionnaire. The items related to each construct for the questionnaire will be pooled from the literature. To supplement the development of appropriate questionnaire that meet all the requirements of study, semi-structured interviews with bankers as well as their clients will be conducted. Most of the structured questions will be the close-ended type and respondents will be asked to show their agreement on five-point likert scale. After developing the instrument, the questionnaire will be get analyzed by the banking sector experts to assess the content validity and face validity. A pilot study will be conducted by self-administering the questionnaire to a different group of banking customers. Based on their suggestions of respondents, the instrument will be further modified and tested.

Data Analysis

The data analysis will be conducted using IBM SPSS 20 (Statistical Package for Social Sciences) and AMOS 19 (Analysis of Moment Structures) software package. The descriptive statistics will be used to describe the characteristics of the sample and the related importance of the variables from respondents' viewpoint. Structural equation modeling will be used to study the relationships among latent construct. Apart from structural equation modelling, other multivariate methods of analysis can examine only one relationship at a time and use a limited number of variables (Hair et al., 2006, Schumecker et al., 2004). Even those methods that can examine multiple dependent variables, test only a single relation between the dependent and independent variables (Hair et al., 1995). As a result, these methods cannot be applied to test sophisticated theories (Schumecker et al., 2004). Since one of the study's main objectives is to test how several variables simultaneously affect cross-buying intention, the use of structural equation modelling is necessitated.

Implications

For bank managers

The study's practical contribution will be versatile, as various managerial directions for successful cross-selling are implied. This study will help bank managers understanding how the customers' past experience regarding their relationships with focal bank shape their intentions to cross-buy. The sales people should be enriched with the required skills for cross-selling. They

should understand what shape the customers impression and experience about bank as a service provider sells an experience and experience comprises of first hand interactions. For this, the bank manager should also train their frontline staff to translate the "moments of truth" into healthier relationships.

For policy makers

It will help them in formulating marketing strategies for persuading current customers to buy additional products. It will also help in developing cross-selling strategies for the new and existing customers both. These strategies should be in line with the relationship improvement and development. To encourage cross-buying among customers, they can tailor their marketing programs and promotion activities according to the different group of customers. They might also use the information provided through the findings of this study for better customer retention and maintaining the existing relationships. The success of customer retention strategy ultimately depends on expanding the length and breadth of relationship with customers.

Limitations

This research would be limited to all the products and services provided by retail banks to individual customers. This research is supposed to provide the attitudinal data not the actual transaction data of customers with their main or focal bank. This may limit the generalization of findings. The obtained data will provide the information about the relationships or banking experience of customers with their main provider, and will not provide any information about their relationships with other banks or competitors because in banking industry, customers maintain contact with multiple service providers.

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